



## Insurance Coverage for Condos

Depending on the condo associations master policy and coverage, a condo may require additional coverage for the building. A condo association will insure the building and its common elements based on one of two approaches: **'Single Entity' and 'All In' or 'Bare Walls'**.

### The **'Single Entity'** and **'All-In'** Policy

The master policy must cover all of the general and limited common elements that are normally included in coverage. These include fixtures, building service equipment, and common personal property and supplies of the HOA. The policy also must cover fixtures, equipment, and replacement of improvements and betterments that have been made inside the individual unit being financed. The amount of coverage must be sufficient to restore the condo unit to its condition prior to a loss claim event. ***If the unit interior improvements are not included under the terms of this policy type, the borrower is required to have an HO-6 policy to cover the unit interior elements.***

### The **"Bare Walls"** Policy

This master policy typically provides no coverage for the unit interior, which includes fixtures, equipment, and replacement of interior improvements and betterments. This means, the association is not responsible for insuring anything inside the unit such as appliances, cabinets, carpeting, plumbing, wiring, wallpaper, interior partitions, bathroom fixtures, etc. ***As a result, the borrower must obtain an individual HO-6 policy that provides coverage sufficient to repair the condo unit to its condition prior to a loss claim event.***

### **Master Policy Amount of Coverage—Building Coverage**

Insurance must cover 100% of the insurable replacement cost of the project improvements, including the individual units in the project. An insurance policy that includes any of the following coverage, either in the policy language or in a specific endorsement to the policy, is acceptable:

- Guaranteed Replacement Cost – the insurer agrees to replace the insurable property regardless of the cost,
- Extended Replacement Cost – the insurer agrees to pay more than the property's insurable replacement cost, or
- Replacement Cost – the insurer agrees to pay up to 100% of the property's insurable replacement cost.

### **If a condo master/blanket insurance policy provides for "all-in" coverage, is an HO-6 policy for the individual condo unit necessary?**

Agencies do not require an HO-6 insurance policy for the condo unit when the master/blanket policy provides for "all-in" coverage. However, if the unit includes improvements or betterments that are not covered under the standard master policy coverages (i.e.—Elements superior to the quality provided by the builder or elements added by the unit owner), the borrower must obtain an HO-6 policy that provides coverage for 100% of the insurable replacement cost of all interior improvements and betterments.

### **What is meant by the term "improvements and betterments?"**

Permanent changes, alterations, or upgrades made to an individual unit. Further details and guidance should be available from the insurance agent to confirm that the HOA's master policy, combined with the unit owner's HO-6 policy, provides sufficient coverage *to restore an individual unit to its condition prior to a loss claim event.*

### **To restore the unit to its condition prior to a loss claim? How should we determine this?**

We should use the best known/available information to determine whether the insurance coverage provided at the loan's origination was a reasonable representation of the condition of a property at the time the mortgage loan was delivered. Examples to determine the reasonableness of coverage include, but are not limited to: an appraisal, a replacement cost estimate performed by a third party, the original or updated condo unit specifications.